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INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

C O N F I D E N T I A L BUDAPEST 001580

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DEPARTMENT FOR EUR DAS BRYZA AND NCE MARC NORDBERG;
TREASURY FOR DAS LEE AND DAS LOWERY; PLEASE PASS TO NSC FOR
ADAM STERLING

E.O. 12958: DECL: 09/20/2012

TAGS: [PGOV](#) [PREL](#) [ENRG](#) [HU](#)

SUBJECT: FORWARD DEFENSE: HUNGARY CONSIDERS LEGISLATION TO
DEFEND STRATEGIC INDUSTRIES, REQUESTS USG ASSISANCE

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI: REASONS 1.4 (B) AND (D)

[11](#). (U) This is an action message. Please see para 9 for
action request.

[12](#). (SBU) Parliament is reportedly poised to adopt
legislation that will provide added protection against the
foreign takeover of strategic industries.

THE MOL LAW

[13](#). (SBU) Sources within the government and the opposition
expect action in the near term on an amendment to Hungary's
existing Law on Corporations that would provide the
leadership of companies in selected industries with broader
powers to resist takeover bids.

[14](#). (SBU) The measure, commonly called "The MOL law," has
already been the subject of public discussion, with one
professional association challenging its validity under EU
regulations and the Budapest Stock Exchange quickly rallying
to the amendment's defense.

A NECESSARY BUT A TEMPORARY FIX ...

[15](#). (C) The amendment follows weeks of maneuvering by players
inside and outside the government, including the Prime
Minister's Office, the Ministries of Finance and Justice/Law
Enforcement, and Hungarian oil company (MOL). Former Foreign
Minister Janos Martonyi, senior partner of the local offices
of Baker McKenzie and a legal advisor to MOL, tells us that
he originally prepared language to amend Hungary's Energy Law
but the decision was ultimately made to focus on the Law on
Corporations based on advice from the Ministry of Finance.

[16](#). (C) One of the first to raise the alarm regarding OMV's
attempted take-over of MOL and the broader vulnerability of
Hungary's strategic industries, Martonyi accepts the
necessity of protective legislation but has voiced concerns
over the government's approach. He believes that the pending
amendment will help defend MOL but could have unintended
consequences with regard to competition and transparency. He
fully expects a legal challenge to the revised law.

[17](#). (C) So does MOL economist Laszlo Varro, who predicts a
challenge in the European Court of Justice. Varro and others
believe the amendment is a short-term fix to address an
immediate vulnerability while the GoH seeks a more
comprehensive legislative solution.

[18](#). (C) GoH sources believe the ideal solution would be a
European one, and will doubtless welcome the EU's recent
steps in this regard. Ambassador Karoly Banai, the Prime

Minister's Foreign and Security Policy Advisor, indicates that the GoH may have to develop stand-alone legislation to succeed the current amendment, and has repeatedly emphasized that USG advice and assistance would be welcome as Hungary continues its national efforts.

AND AN OPPORTUNITY TO SHAPE THE GOH'S STRATEGY

19. (C) Comment and Action Request: Clearly shaken by the OMV take-over bid, the GoH is moving with unaccustomed alacrity and uncommon consensus. We want to encourage both. The pending amendment, however, is likely to be a temporary fix vulnerable to legal challenge. We believe we can add real value by offering our expertise and experience to help shape the GoH's consideration of future) and farther-reaching) legislation to defend their strategic industries and with them our strategic interests. Toward that end, we would warmly welcome the designation of an appropriate USG expert to consult with GoH officials. End Comment.
FOLEY